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SPAIN

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- I. Franco facing growing opposition. Critical period next few months as government undertakes to impose financial austerity.
- A. Opposition not organized and no strong leader to rally divergent forces.
1. Labor--increasingly discontented with chronic inflation, persistence of marginal living standards.
- a. Spanish Communist Party of some 5,000 active in labor, controls shop stewards in some areas, especially Barcelona anti-regime propaganda activities continue despite police harassment, but so far party has not infiltrated security forces.
- b. Nevertheless, CP call for general strike on 18 June a failure.
2. Certain business elements distressed by economic situation and government corruption.
3. Monarchists--who constitute considerable proportion of the elite--disgusted with Franco's handling of succession question.
4. Some Catholic laymen and some Bishops concerned by grave social conditions.
- B. General concern over Franco's failure to provide for orderly succession and consequent possibility of struggle for power when he departs.
- II. Some cracks beginning to appear in the traditional pillars on which the regime depends for its continued existence.

- A. Army basically loyal, but its leaders could be shaken by:
 - 1. Any imminent widespread public disorder which it believed would be uncontrollable.
 - 2. Further concessions to Morocco in shape of withdrawal of Spanish military positions (possibly excluding Ifni).
- B. Police are staunchest Franco prop.
 - 1. However, some reports of resentment over low pay.
 - 2. Fearful of being put in position of Hungarian and Batista police.
- C. Industrial and Banking circles far from enthusiastic over proposed Stabilization Program for Spain.

III. Economic stabilization program negotiated with IMF and OEEC providing for 355 million dollar infusion of foreign aid for Spanish regime offers some hazards to internal political stability.

- A. Spanish government obligated to initiate severe domestic financial austerity, elimination of government trade and price controls, realistic peseta exchange rate and liberalization of imports, but will receive full OEEC membership.
- B. Sincere official implementation of and wide public confidence in program will be necessary to achieve stabilization; Franco has not yet publicly committed himself to support program.
- C. We believe stabilization program will cause further production cutbacks, cuts in overtime pay, further lay-offs and sharp price rises in private sector of economy. This will almost certainly stir public unrest--perhaps as early as mid-winter. Under these circumstances it is possible government will renege on some reforms, ordering increased public expenditures and permitting general wage boosts.

B. Such policies would probably result in more inflation which would aggravate existing hostility to the regime among opposition groups, labor and small business.

IV. As long as the opposition to Franco remains disunited and the military and the police prevent the domestic situation from getting out of hand, we do not believe the regime will be overthrown.

A. However, under circumstances of widespread public disorder, army leaders would probably feel impelled to seek Franco's removal--probably in a discreet manner. Some form of monarchy would probably be invested.

V. Spain's neighbor Portugal faces somewhat similar problems.

A. Salazar physically and politically weaker than at any time in past 30 years.

B. Increasing sentiment among Salazar's supporters that he should retire.

C. However, at this time, opposition lacks strong leader and economic situation offers no immediate threat to stability.

(Note: Annex carries some basic figures on Spanish situation.)